

Message Text

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ACTION SS-25

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C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 13133

EXDIS

PARIS FOR FISHLOW OF U.S.DEL TO CIEC

E.O. 11652: GDS

TAGS: ENRG, VE

SUBJECT: PETROLEUM REVERSION: THE OIL PRICE

1. SUMMARY: THE PRESIDENT SUMMONED ME TO BREAKFAST THIS MORNING TO DISCUSS WHAT HE SEES AS A LOOMING POLITICAL CRISIS BROUGHT ON BY EXXON'S DECISION TO REDUCE ITS OFFTAKE OFFER IN LIGHT OF THE PRICES THE GOV HAS SET FOR THE FIRST QUARTER OF 1976. AS HE USUALLY IS WITH ME, THE PRESIDENT WAS CALM AND MATTER-OF-FACT, BUT OBVIOUSLY DEEPLY DISTURBED BY THE PROSPECT OF SHARPLY LOWER NATIONAL REVENUE AND THE RESULTING OUTCRY FROM HIS INCREASINGLY AGGRESSIVE OPPOSITION. CARLOS ANDRES HIMSELF SET THE PRICE LEVEL THAT EXXON AND THE OTHER COMPANIES FIND NONCOMPE- TITIVE. HE WILL PROBABLY CONCLUDE THAT IT IS POLITICALLY LESS PAINFUL AT THE OUTSET TO ALLOW PRODUCTION TO FALL THAN TO CUT PRICES BUT MAY WELL COVER HIS TRACKS BY ACCUSING THE COMPANIES AND THE USG OF PRESSURING VENEZUELA. HE SUGGESTED THAT THE USG MIGHT HELP AVERT THIS CRISIS. I SAID ONLY THAT WE WOULD INFORM OURSELVES ON THE ISSUE. I ALSO TOOK THE OPPORTUNITY TO OBSERVE THAT THIS PROBLEM IS CLOSELY RELATED TO NATIONALIZATION AS A WHOLE AND THAT WE HAVE DIFFERENCES THERE OVER WHAT CONSTITUTES ADEQUATE COMPENSATION. IN MY JUDGMENT IT WOULD NOT BE IN OUR INTEREST TO INTERVENE IN THE PRICE NEGOTIATIONS. RATHER WE SHOULD LET EXXON AND THE OTHER COMPANIES DRIVE THE HARDEST BARGAIN THEY CAN. END SUMMARY.

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2. I BREAKFASTED ALONE WITH PRESIDENT CARLOS ANDRES PEREZ FOR ABOUT AN HOUR AND A HALF THIS MORNING AT HIS INVITATION, AN INVITATION CONVEYED LAST NIGHT THROUGH THE ACTING FOREIGN MINISTER WITH SOME SENSE OF URGENCY. THE SUBJECT WAS THE OIL PRICE.

3. THE PRESIDENT SAID THAT HE WAS FACING THE MOST CRITICAL MOMENT OF THE OIL NATIONALIZATION PROCESS. CREOLE (EXXON) IS OFFERING TO LIFT ONLY ABOUT 500,000 B/D IN THE FIRST QUARTER OF CY '76 AT THE PRICES SET BY THE GOV. SHELL IS APPARENTLY PREPARED TO TAKE 400,000 B/D BUT THE SMALLER COMPANIES CAN BE EXPECTED TO FOLLOW CREOLE'S LEAD. THE PRESIDENT CALCULATED THAT VENEZUELA COULD THUS BE DOWN AS LOW AS 1.3 MILLION B/D IN EXPORTS BEGINNING JANUARY 1. THE COUNTRY WOULD SUFFER A DRASTIC REDUCTION IN REVENUE AND MIGHT NOT EVEN BE ABLE TO REFINER ENOUGH GASOLINE AT THAT LEVEL OF PRODUCTION TO SATISFY INTERNAL DEMAND.

4. REVIEWING THE PRICE NEGOTIATIONS, CARLOS ANDRES SAID THAT THE MINISTRY OF MINES BEGAN WITH A FIGURE OF \$11.70 PER BARREL. (THE PRESIDENT WAS REFERRING TO THE AVERAGE PRICE FOR ALL EXPORT CRUDE AND PRODUCT.) EXXON COUNTERED WITH \$10.80 BUT FINALLY INDICATED THAT LIFTINGS CLOSE TO CURRENT PRODUCTION ON ITS CONCESSIONS WOULD BE POSSIBLE AT \$11.20. THE PRESIDENT DECIDED HE COULD NOT GO BELOW \$11.40 (ABOUT THE CURRENT AVERAGE PRICE) AND THE COMPANY THEREUPON CUT BACK HEAVILY ON THE VOLUME IT WOULD TAKE.

5. CARLOS ANDRES TOLD ME THAT HE COULD NOT SHAVE THE \$11.40 FIGURE WITHOUT SERIOUS POLITICAL RISK. THE PRINCIPAL OPPOSITION PARTY, COPEI, IN HIS VIEW HAS "RADICALIZED" ITS PETROLEUM POLICY, JOINING THE EXTREME LEFT IN CLAIMING A SELL-OUT TO THE COMPANIES IN EVERY PHASE OF THE NATIONALIZATION. COPEI HAS THE COMPLETE INFORMATION ON THE TECHNICAL SERVICE CONTRACTS (OBTAINED ACCORDING TO THE PRESIDENT FROM PARTY MEMBERS IN THE MINISTRY OF MINES) AND IS PREPARING AN ALL-OUT ASSAULT. THE PRESIDENT INSISTED THAT FOR THE GOV TO APPEAR AS CUTTING THE OPEC PRICE AT THE VERY OUTSET OF THE NEW PETROLEUM REGIME WOULD BE TOO MUCH. PUBLIC CONFIDENCE WOULD WEAKEN AND THE OPPOSITION WOULD HAVE ITS OPPORTUNITY.

6. CARLOS ANDRES ASSERTED THAT IN THE CIRCUMSTANCE HE HAD
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PREPARED A "SECOND SPEECH" FOR DELIVERY AT THE NATIONALIZATION CEREMONIES JANUARY 1 IN THE EVENT THE OFFTAKE PROBLEM IS NOT RESOLVED. THAT SPEECH WOULD CALL FOR NATIONAL UNITY AND "BELT-TIGHTENING" IN RESPONSE TO "PRESSURE" FROM THE "TRANSNATIONALS". THE PRESIDENT THOUGHT THAT COURSE HAD ITS POLITICAL ATTRACTIONS BUT HOPED HE WOULD NOT HAVE TO TAKE IT. HE THEN THREW OUT THE IDEA THAT THE USG MIGHT BE OF ASSISTANCE WITH EXXON IN HELPING TO MEET THIS CRISIS.

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C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 13133

EXDIS

PARIS FOR FISHLOW OF U.S.DEL TO CIEC

7. I REVIEWED MY UNDERSTANDING OF WHY THE COMPANIES FIND THE VENEZUELAN PRICES UNREALISTIC, NOTING IN PARTICULAR THE DIFFICULTIES IN MARKETING FUEL OIL AS A CONSEQUENCE OF SLACK DEMAND AND OVERSUPPLY. I ASKED WHAT THE VENEZUELAN EXPERTS HAD TO SAY ON THIS POINT. THE PRESIDENT CONCEDED THAT THEY DESCRIBED THE MARKET AS UNFAVORABLE BUT SAID THEY ALSO TOLD HIM THE "PARIS MEETING" AND THE EFFORT TO "BREAK OPEC" WERE INVOLVED. I SAID I FOUND THAT THEORY HARD TO UNDERSTAND SINCE NIGERIA, FOR EXAMPLE, IS SELLING MORE CRUDE THAN EVER IN THE U.S. AND, IN EFFECT, VENEZUELA IS LOSING MARKET SHARE TO FELLOW MEMBERS OF OPEC. THE PRESIDENT IN RESPONSE NOTED "RUMORS" THAT SOME OPEC EXPORTERS MIGHT BE OFFERING ILLEGAL DISCOUNTS.

8. HE WENT ON TO ARGUE THAT WHAT IS AT STAKE HERE IS A LONG-TERM RELATIONSHIP IN WHICH EXXON AND THE OTHER COMPANIES WILL CONTINUE TO TAKE GOOD PROFITS OUT OF VENEZUELA. TO GUARANTEE THAT RELATIONSHIP THEY SHOULD BE WILLING TO ACCOMMODATE VENEZUELA AT THIS JUNCTURE, ALTHOUGH, THE PRESIDENT ADDED, THEIR INTEGRATED OPERATIONS AND ABILITY TO "MANIPULATE" OIL AROUND THE WORLD WOULD PREVENT REAL LOSSES IN ANY CASE. THREE MONTHS FROM NOW, HE CONCLUDED, PETROVEN WOULD BE NEGOTIATING ON THE VENEZUELAN SIDE AND WOULD HAVE MORE FLEXIBILITY THAN THE GOVERNMENT ITSELF NOW HAS.

9. IN RESPONSE I OBSERVED THAT THE POLICY OF MY GOVERNMENT IS

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OPPOSITION TO PRICE INCREASES, NOT SUPPORT FOR THEM. I ALSO POINTED OUT THAT THE PRICE QUESTION IS CLOSELY CONNECTED WITH THE PROBLEM OF NATIONALIZATION AS A WHOLE IN WHICH, AS HE WOULD RECALL, THERE IS A SIGNIFICANT DIFFERENCE OF OPINION BETWEEN OUR TWO GOVERNMENTS AS TO WHAT CONSTITUTES AN ADEQUATE STANDARD OF COMPENSATION.

10. THE PRESIDENT AGREED WITH MY CHARACTERIZATION OF USG POLICY ON THE OIL PRICE BUT SAID THAT WE CONFRONT A POLITICAL PROBLEM IMPORTANT TO THE RELATIONSHIP BETWEEN THE TWO COUNTRIES. ON THE COMPENSATION ISSUE, HE CLAIMED NOT TO UNDERSTAND WHY THE USG WOULD HAVE AN INTEREST IF THE COMPANIES AGREED TO THE SETTLEMENT OFFERED. I ASSURED HIM THAT SUCH AN INTEREST REMAINED, NOTING OUR VIEW OF INTERNATIONAL LAW AND OUR RESPONSIBILITY FOR U.S. INVESTMENT AROUND THE WORLD. CARLOS ANDRES THEN ASSERTED THAT NET BOOK VALUE IN THIS CASE SETS NO PRECEDENT SINCE THE CONCESSIONS NEVER BELONGED TO THE COMPANIES AND ARE LOGICALLY THEREFORE NOT ELIGIBLE FOR COMPENSATION. HE OFFERED AS AN EXAMPLE OF THE POINT HE WAS MAKING THE FACT THAT THE GOV WILL BE PAYING WELL IN EXCESS OF BOOK VALUE IN NATIONALIZING THE DAIRY INDUSTRY WHERE NO "CONCESSIONS" ARE INVOLVED. (HIS REFERENCE WAS TO A LARGE DAIRY CONCERN NOW BEING TAKEN OVER IN WHICH BORDENS HAS AN INTEREST.) I REPEATED THAT THE DIFFERENCE IN OUR VIEW REMAINED.

11. I CONCLUDED THIS PART OF THE CONVERSATION BY PROMISING TO INFORM MYSELF AND THE DEPARTMENT ON THE PRICE ISSUE. I MADE NO OTHER COMMITMENT.

12. COMMENT: I SUSPECT THAT THE "EXPERT" WHO TELLS THE PRESIDENT THAT THE COMPANIES' RESISTANCE TO INFLATED PRICES REFLECTS A PLOT AGAINST OPEC AND A PRESSURE TACTIC IN CIEC IS NONE OTHER THAN MANUEL PEREZ GUERRERO.

13. AS IT WILL REPORT IN A FOLLOWING CABLE, THE PRESIDENT EXAGGERATES SOMEWHAT THE EXTENT OF EXXON'S PROBABLE REDUCTION IN OFFTAKE. HOWEVER, HE MAY BE FAIRLY CLOSE IN PREDICTING A DROP IN TOTAL EXPORTS TO AROUND 1.3 MILLION B/D. THERE IS NO QUESTION THAT A FIGURE IN THAT RANGE WILL BRING SEVERE PROBLEMS FOR THE GOV. BUT THE GOV IS CREATING THOSE PROBLEMS FOR ITSELF. IT HAS SIMPLY NOT SUNK IN HERE THAT NATIONALIZATION CHANGES THE GAME--
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THAT VENEZUELA CAN NO LONGER DICTATE TERMS AND CONDITIONS TO

CAPTIVE OIL COMPANIES.

14. THE PRESIDENT ALMOST CERTAINLY WILL IN THE SHORT RUN ALLOW PRODUCTION TO DROP SIGNIFICANTLY RATHER THAN TAKE THE POLITICALLY MORE PAINFUL ALTERNATIVE OF SHARP (AND HIGHLY VISIBLE) PRICE CUTTING. AND HE MIGHT WELL WORK UP A POLITICAL STORM ABOUT THE TRANSNATIONALS AND THEIR PROTECTOR GOVERNMENT TO OBSCURE THE FACT THAT NATIONALIZATION WILL MAKE VENEZUELA POORER RATHER THAN RICHER. I HAVE EXPRESSED PREVIOUSLY MY VIEW THAT THE PROBLEMS ARISING FROM NATIONALIZATION WILL BY NO MEANS BE BEHIND US ON JANUARY 1. BUT IT IS VERY MUCH IN OUR INTEREST THAT THE GOV FACE THE REALITY OF THE MARKETPLACE NOW. I BELIEVE WE SHOULD KEEP OUR DISTANCE AND LET EXXON AND THE OTHER COMPANIES DRIVE THE HARDEST BARGAIN THEY CAN.

15. AS FOR PEREZ GUERRERO'S STATEMENTS TO THE SECRETARY (PARIS 32717), IT IS PROBABLY THE CASE THAT THE PRESIDENT AND PERHAPS OTHERS BELIEVE THAT WE ARE SOMEHOW INVOLVED IN EXXON'S "DEMANDS." PEREZ GUERRERO HIMSELF FEEDS THESE SUSPICIONS. IT IS ALSO TRUE THAT THE SITUATION MAY "CLOUD" OUR RELATIONS. BUT I SEE NOTHING WE CAN USEFULLY DO AT THE MOMENT TO PERSUADE THE VENEZUELANS THAT MARKET FORCES AND NOT CONSPIRACIES ARE THEIR PROBLEM. WE CAN HOPE THEY WILL LEARN.
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